



Guideline Impact Analysis Statement

B-13 Reinsurance Agreements

December 2006

I. Problem Identification

During a review of reinsurance arrangements across the industry, OSFI noted a disparity in the length of time between the initiation of a reinsurance arrangement and formal execution by the parties of the agreement. This period is generally referred to as the “slip stage.” Coverage during this period is usually set out in a less formal document (e.g., slip/cover note/letter of proposal). However, if an event were to occur within this period, the lack of certainty relating to coverage in the informal document could create risks for the both the ceding and assuming companies. Also, ambiguous wording within an agreement increases the potential for differing interpretation by various parties.

II. Objectives

In order to assist insurance companies in mitigating risks related to reinsurance arrangements, OSFI would like to establish guidance that sets out prudential considerations, including timelines, for the formal drafting and execution of a reinsurance agreement as well as considerations for complete final agreement wording.

III. Options & Assessment

Option 1 Status Quo

Under this option, reinsurance arrangements would continue as currently produced. However, timelines given to companies for formal execution by the parties of a reinsurance agreement by OSFI may not be transparent and may differ between the life and property and casualty sectors. While this is a least work/cost option in the short term, it would likely lead to continued lags between less formal documents (e.g., slip/cover note/letter of proposal etc.) and formal contracts. Such lags could result in legal issues relating to coverage of claims.

Option 2 Introduce Guidance

This option makes the prudential considerations for formal execution by the parties of reinsurance agreements more transparent. It would clarify OSFI’s expectations relating to timelines for formal execution of a reinsurance agreement as well as complete wording within an agreement. The costs associated with guideline development would be minimal.



IV. Consultations

OSFI undertook preliminary consultations with a representative sample of insurance companies in early 2006. Many of their comments have been incorporated in the draft version of the guideline. The draft guideline is now being issued broadly in order to obtain comment from all interested parties.

V. Recommendation

OSFI recommends option 2, as it will more effectively achieve the goal of limiting potential exposure in a manner that will ensure consistent application across the industry.

VI. Implementation & Evaluation

OSFI expects that new reinsurance arrangements will come into compliance with the provisions of the guideline as at the date the guideline is finalized. The provisions of the guideline will apply to existing reinsurance arrangements that have not been executed by the parties to the agreement as if the arrangements had been entered into as at the date the guideline is finalized.

OSFI may review the effectiveness of the guideline at a future date as part of ongoing efforts to ensure effectiveness of its guidance.